

## **1. Preface**

The Trade Sub-Committee conducting the Inquiry has advised that the geographical scope is very broad and expected to cover Asia (including South and South East Asia), the Pacific (but not smaller islands), all Americas, but to exclude Africa, the Middle East, Europe and Atlantic Islands. In view of the broad coverage, details in this submission have been mainly limited to major trading relationships.

## **2. Existing trade and investment relations**

### **Trade**

In 2007, Australia's top 10 two-way trading partners were: China, Japan, the United States of America (USA), United Kingdom, Singapore, the Republic of Korea, New Zealand, Thailand, Germany and India. All of these except Germany are in the regions being examined as part of the Trade Sub-Committee Inquiry.

NSW's top 10 merchandise export destinations in 2006-07 were: Japan, New Zealand, China, USA, South Korea, Taiwan, Thailand, India, Malaysia and South Africa. Eight of these top ten countries are in the APEC region. APEC member countries take in approximately 78 per cent of NSW's merchandise exports.

NSW exported over \$50 billion in goods and services in 2006-07, 23.7 per cent of the total Australian goods and services exports. The top ten NSW merchandise exports are coal, education services, personal travel services, transport services, other business services, aluminium, copper ores, medicaments, refined petroleum, and business travel services.

The composition of exports to Japan, China and South Korea is largely bulk commodities such as coal, aluminium, copper, wool and meat. Manufactured goods and processed foods are exported to New Zealand and the United States. China's industrial expansion has brought about unprecedented demand for Australian commodity exports.

The value of NSW exports of manufacturing, mining and agricultural products to the Latin America region are much smaller than the value of the State's exports to the Asia Pacific region. Data indicates that the total of NSW mining and manufacturing exports to Chile has decreased during the five years from 2001-2002 to 2006-2007 by 53.5 per cent to \$19 million. The total of similar exports to Brazil has decreased by 9.5 per cent to \$39 million.

In 2006-07 NSW's major merchandise import markets were China, USA, Japan, Germany, United Kingdom, Singapore, Malaysia, Republic of Korea and Thailand. During 2006-2007 merchandise imports by NSW from these markets increased except from Japan and Malaysia, while over the five years from 2001-2002 to 2006-2007 imports from these markets increased except from the UK.

Imports (mining and manufacturing) from Chile and Brazil into NSW have increased over the same period by 48.9 per cent to \$41 million and 47.8 per cent to \$291 million respectively.

This is quite different to NSW's trade relationship with China and India where for the same period, exports (mining and manufacturing) have increased by 115.5 per cent to \$2.098 billion and 83.0 per cent to \$740 million respectively and imports have increased by 151.4 per cent from China to \$12.7 billion and 46.2 per cent from India to \$419 million.

NSW leads Australia's export of services, accounting for more than 41 per cent of Australia's \$46.2 billion service exports. Over time, services exports have increased their share of total NSW exports - just as service industries have increased their share of NSW industry value added (83 per cent) and of employment (86 per cent).

The countries of the Asia Pacific, especially the high growth economies of China and India, are rapidly increasing their imports of services providing opportunities for increases in exported services from Australia and NSW. South Korea and Taiwan also offer significant opportunities. However, non tariff barriers in several of these markets limit access.

Almost 40 per cent of Australia's merchandise imports worth \$69.8 billion are funnelled through Sydney's ports every year. Many of these imports are then shipped to other States and Territories. Re-exports from Australia were valued at \$6.4 billion in 2006-07 of which 58.9 per cent or \$3.6 billion were exported from NSW ports. The top five destinations for re-export were to the USA, New Zealand, Singapore, Hong Kong and Papua New Guinea. United States and New Zealand accounted for almost 50 per cent of Australia's re-exports, which mainly consist of machinery, electronics, pharmaceuticals and medical devices.

NSW is encouraging more firms to participate in international markets so that they have the opportunity to become entrenched global players who anchor their business in Australia and are also active offshore. The expected outcome is a gain in supply chain opportunities for multinational Australian business and in high-value jobs and profit inflows to Australia.

The NSW Department of State and Regional Development (DSRD) leverages international relations through partnerships in Australia and overseas, and through international visits and trade missions overseas, which provide opportunities to promote the State's industry capacity. In 2007-2008 the State's capabilities were also promoted to inbound international delegations from India, China, Tokyo, Malaysia, the former Yugoslav Republic of Macedonia, Rome and APEC.

The NSW Government's business and trade services are focused onshore in identifying potential new-to-export and new-to-market established traders.

The State relies on the support of the Commonwealth's overseas network for trade and investment leads, and for in-market services for trade missions and market visits by client companies supported by DSRD.

The Commonwealth Government is working to grow Australia's export opportunities through multilateral and bilateral trade agreements. Australia has free trade agreements (FTAs) with Singapore, Thailand, United States, Chile and a Closer Economic Relations agreement with New Zealand. Australia is also a party to the Pacific Agreement on Closer Economic Relations

(PACER), along with New Zealand and Forum island countries. Since 28 August 2008, the ASEAN, Australia and New Zealand Free Trade Agreement (AANZFTA) has been in place, following the conclusion of negotiations conducted by Ministers of the 10 ASEAN countries, Australia and New Zealand.

Australia is in the process of negotiating FTAs with China, the Gulf Cooperation Council, Japan and Malaysia, while FTAs with India, Korea, and Indonesia are also under consideration. Australia is taking a lead role in APEC-endorsed strategies to support regional economic integration through regional trade agreements and also leads the Cairns Group of countries which is seeking reductions in barriers and subsidies for trade in agriculture.

The Cairns Group brings together 19 agricultural exporting countries which account for over 25 per cent of the world's agricultural exports. The Group, made up of developed and developing countries across five continents, has continued to push for the liberalisation of trade in agricultural exports in WTO Doha Round of negotiations. Members of the Group are: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand and Uruguay.

## **Investment**

Australia competes with a large number of nations for inbound investment. These include sophisticated and developing economies, such as the USA, Singapore and Hong Kong, as well as less developed nations of China, India and other ASEAN countries.

In 2007, the top four foreign direct investment (FDI) source markets for Australia were the USA, UK, Japan and the Netherlands. Substantial FDI increases were received from Singapore and Canada, and the stock of total foreign investment from China rose 77.7 per cent.

In 2008-2009, the NSW Government will continue to work with Austrade to grow both exporting and foreign direct investment, as inbound investment improves domestic export readiness in multinational companies and can also shore-up gaps in the value chain, and sustain domestic production during market downturns.

### 3. Likely future trends

#### Merchandise trade

Merchandise trade between NSW and APEC, ASEAN and East Asian countries and the geographical regions of the Americas and Asia has increased over the five years from 2001-2002 to 2006-07 as shown in the table below.

#### NSW Merchandise trade by selected regions and country groups (A\$ million)

| <b>Exports</b>                     | Merchandise exports | % Growth           |                                    |
|------------------------------------|---------------------|--------------------|------------------------------------|
| <b>Selected country groups</b>     |                     | 2005-06 to 2006-07 | Five Year Trend 2001-02 to 2006-07 |
| APEC                               | 21,930              | 3.1                | 6.4                                |
| ASEAN                              | 3,316               | 1.2                | 4.8                                |
| East Asia                          | 16,387              | 3.3                | 7.8                                |
| <b>Selected geographic regions</b> |                     |                    |                                    |
| Americas                           | 3,109               | -1.6               | 2.8                                |
| Asia                               | 17,840              | 5.0                | 7.6                                |

| <b>Imports</b>                     | Merchandise imports | % Growth               |                 |
|------------------------------------|---------------------|------------------------|-----------------|
| <b>Selected country groups</b>     |                     | 2005-2006 to 2006-2007 | Five Year Trend |
| APEC                               | 49,095              | 6.7                    | 6.7             |
| ASEAN                              | 11,076              | 8.3                    | 9.4             |
| East Asia                          | 34,694              | 7.5                    | 9.1             |
| <b>Selected geographic regions</b> |                     |                        |                 |
| Americas                           | 12,680              | 9.1                    | 1.6             |
| Asia                               | 35,963              | 7.6                    | 9.0             |

Source: Australia's Trade by State and Territory 2006-07, Department of Foreign Affairs and Trade.

NSW's merchandise exports to its top 10 international export markets increased over the five years to from 2001-2002 to 2006-2007, although there was a decrease in exports to USA and Taiwan during 2006-2007.

Contributing to export growth was the strong demand for NSW's major mineral and energy commodities together with significant increases in exports of manufactured goods, including medicinal and pharmaceutical products, medical devices, electrical equipment and machinery.

It is expected that demand for NSW commodities will remain strong for the foreseeable future and that the majority of international trade over the next five years will be with the Asia Pacific region, including the United States. With Free Trade Agreements being negotiated by Australia with China, Japan, the Gulf Cooperation Council, and Malaysia, and others under consideration with India, Korea, and Indonesia, additional market access should become available. However, it will be important for Australia and NSW to diversify export bases for goods and services to provide for sustainable economic growth.

## **Foreign Investment trends**

Foreign direct investment in Australia totalled US\$24 billion in 2006 which was greater than inflows into the major regional economies of Japan, Korea, Indonesia and India. In 2008 the outlook for FDI in Australia is strong with factors such as a resilient domestic economy, strong company earnings, buoyant commodity prices and financial stability adding to Australia's attractiveness as a destination for foreign investment. However, the USA is expected to easily retain its position as the world's leading FDI recipient.

During 2008-2009, it is expected that USA, UK, Japan, Hong Kong SAR and Singapore will remain as major sources of foreign investment in Australia.

NSW expects to continue to win investment projects through international promotional efforts. China and India will remain major focus areas for international visits organised by the Department of State and Regional Development.

## **4. Role that Asia, the Pacific and Latin American countries might play in advancing the Doha Round of multilateral trade negotiations in the WTO**

Negotiations at the WTO Ministerial Meeting held in Geneva on 21-30 July 2008, broke down over disagreement, particularly between USA and India, relating to the Special Agricultural Safeguard Mechanism and the extent to which major developing markets would have to open their agricultural markets and could reinstate protective tariffs in the event of surges in imports or sharp price declines.

World Trade Organisation officials are trying to bring key players in the Doha Round back to the negotiating table with new proposals which could end the deadlock between the United States and India on farm subsidies issues which could not be overcome at the Geneva Ministerial meeting. There is currently widespread support for progressing other aspects of the Doha Round.

Australia is working to get the Doha Round back on track, building on the progress made at the Geneva meeting, particularly on agricultural issues, and on ways to improve services offers and to improve market access for environmental services, e.g. in waste water management, air pollution monitoring and control services and environmental consultancy and engineering services.

However, because of the electoral cycle in the USA, European Union and India, it is unlikely that the Doha Round will be actively resumed in the short term.

## **5. Role of the Commonwealth Government in identifying opportunities and assisting Australian companies, especially those in rural and regional areas, to maximise opportunities in these regions**

To support State efforts to increase international trade and two way investment, NSW recommends that there needs to be closer alignment of Commonwealth and State programs in the areas of:

- marketing Australian industry capability;
- assisting firms to develop business and international markets;
- helping firms to access foreign markets for export;
- supporting global supply chain participation by more firms; and
- facilitating inbound investment.

NSW urges the Commonwealth to negotiate uniform Australian regulations that are acceptable to the United States International Trade in Arms Regulations so that Australian is not excluded from USA defence contracts because of perceived risk of technology diversion. Currently access by Australian companies seeking to manufacture, repair or upgrade US sourced military technology is limited to those that comply with criteria relating to the nationality of their workforces, and to those that have obtained exemptions from their State's anti-discrimination legislation. The cost involved creates a barrier for manufacturing companies, especially small to medium businesses.

The NSW Department of State and Regional Development has noted that the flow of offshore investment leads from the Commonwealth Government virtually ceased during the first seven months of 2008. NSW is looking to Austrade to direct 'leads' to the States and Territories, based on the merits of the Inquiry and the suitability of destination jurisdictions. Efforts should be focused on priority source markets (including USA, UK, China, and India) and on targeting major corporations and decision-makers in sectors that align with Australia's comparative advantages.

NSW relies on the Australian Government to lift export performance and expand to new markets through the development of comprehensive multilateral trade agreements in agriculture, goods and services, and for support in addressing infrastructure and skills constraints.

China, Japan and Korea are potentially substantial markets for Australian horticultural products. Imports into each of these countries are subject to non-trade barriers which in some cases do not adequately acknowledge the domestic quarantine arrangements in Australia which products are subjected to prior to export. The Commonwealth Government needs to negotiate the removal of such market access barriers during multilateral and bilateral trade negotiations.

Businesses may look to the Pacific Islands and New Zealand as markets for learning the mechanics of international trade. These lessons can then be translated into larger, more distant markets.

The development of multilateral and bilateral trade agreements is likely to continue across Asia, the Pacific and America, with Australia involved in a number of current negotiations. The Commonwealth should increase potential opportunities for exporters from NSW and other States and Territories by ensuring FTAs:

- seek comprehensive product coverage for merchandise and services;
- include rules of origin that are consistent;
- have minimal administrative burden; and

- are consistent with the WTO framework.

In addition, FTAs should focus on investment-related provisions that include national treatment as a condition of Australian participation, and tackle behind-the-border technical barriers to trade. NSW is seeking agreements that encourage inbound investment which result in access to new technology, improvement to the domestic skills base and links into the global economy.

Priority should be given to negotiating FTAs with countries:

- where Australia can achieve gains in the short term through first-mover advantage and/or on account of economic opportunities relating to comparative advantages, stage of economic development and the nature of trade and investment flows; or
- where there is greatest potential to open up new markets for Australian firms and/or for investment flows in either direction. The FTAs with China, India, Japan and Korea should be a priority as all four of these countries present opportunities for short-term gains in trade in goods and services and in investment flows.

Australia needs to ensure that the FTAs it pursues do not support discriminatory interests or protectionist structures. FTAs should also be designed to minimise administrative burdens to business.

Feedback from the business clients of the NSW Government's export programs is that FTAs have created new regulatory administrative burdens for companies doing business in our region, because of varying and inconsistent rules and tariffs. This is an issue that NSW would want addressed in any trade reviews.

As agriculture and mineral resources make up a large component of Australian exports, and these are sourced from regional areas, NSW will be looking to ensure that benefits arising through new Commonwealth activities and from FTAs will flow on to regional businesses in NSW.

Effort should be made to include sub-national governments (provincial governments) in trade agreements. This is especially so where sub-national governments enjoy considerable autonomy, as they do in the USA, China and India.

There is a need for Commonwealth trade policy to target barriers behind the borders of trading partners and within Australia through infrastructure reform and addressing skills shortages. There are gains to be achieved through a cooperative approach in trade development and inwards investment attraction activities between the Commonwealth, States and Territories. There are also benefits that will result from a partnership between Austrade and Tourism Australia and State and Territory Governments to develop options to adapt the *Brand Australia* concept to better project Australia as a trade and investment destination, including regional Australia.

Finally, with the changes expected to occur in the global business environment, including those potentially arising from any future progress of the multilateral trade liberalisation agenda and preferential trade agreements, Australia's international business promotion policies should be reviewed every five years to ensure their combined relevance to Australian industry.

